

Encouraging Private Markets and Increasing Autonomy

Armenia

Background

Despite the privatization of most apartments in Armenia, local governments continue to be saddled with responsibility for maintaining, servicing, and heating urban buildings. These ongoing burdens are one of the major factors precluding fiscal solvency of local governments. Fiscal problems are further exacerbated by the lack of independent taxation authority or other revenue generating mechanisms, resulting in continued municipal reliance on diminishing budgetary allocations from the national government. To address the growing problems being faced by local governments, the national government coordinated an effort among several ministries (including the Ministry of Economy, the Ministry of Territorial Administration, and the Ministry of Urban Development) to develop a program of legal reform. The purpose of the legal reform was to encourage private investment in real estate markets, shift responsibility for the maintenance of multi-family apartment buildings to the private sector, and strengthen the capacity of local governments to finance and perform remaining functions, including maintenance of infrastructure and municipal facilities.

Innovation

Starting in December 1995, the National Assembly adopted a series of three laws: the Law on Real Property, the Law on Co-Ownership Entities, and the Law on Local Self-Government. The Law on Real Property is aimed at stimulating private investment in real estate markets by clarifying and strengthening the basic rights to land and real property. While other republics of the former Soviet Union have also sought to strengthen private rights to land and real estate through the adoption of new civil codes and other laws, the Armenian law is unique in its attempt to establish in one law the basic legal framework for land and real estate markets. The second piece of legislation, the Law on Co-Ownership Entities, establishes the basic framework for the formation of housing associations to assume responsibility for maintenance of multi-family apartment buildings. The shifting of responsibilities from municipalities to private owners is essential to free up municipal resources for functions more appropriate in a market economy, such as managing urban development, and providing infrastructure, community facilities, and basic municipal services. The final piece of legislation, adopted in June 1996, was the Law on Local Self-Government, which broadly delegates authority for local decision-making to locally elected mayors and councils and assigns land and property tax revenues to local governments. The transfer of land and property tax revenues gives local governments access to funds necessary to achieve fiscal solvency and provides them with an incentive to complete the transfer of real estate assets to the private sector and help bring those assets into more productive use. Local government officials will remain accountable to local residents through periodic elections.

Results

The legal framework is now in place in Armenia to facilitate the completion of the transfer of housing and other real estate assets, and the responsibility for their maintenance, to private owners. Approximately 400 buildings are currently being managed by condominium associations, and several cities have set up offices to provide assistance to residents wishing to form additional associations. Private rights to land and real estate have been strengthened, which should lead to increased private investment in land and real property and a growing tax base to support municipal governments on an ongoing basis. Local governments now have the authority to make budgetary and operational decisions that best suit local needs and conditions. The first elections of mayors and members of local councils took place on November 10, 1996.

Summary

To encourage private investment in real estate markets, shift responsibility for the maintenance of multi-family apartment buildings to the private sector, and strengthen the capacity of local governments to finance and perform remaining functions, the national government of Armenia adopted a series of three laws. The legal framework is now in place in Armenia to facilitate the completion of the transfer of housing and other real estate assets, and the responsibility for their maintenance, to private owners.

For more information contact:

Levon Barkhudarian, Minister of Finance
Tel. (3742) 52-70-82

Vahram Avanesyan, Minister of Economy
Tel. (3742) 52-73-42
Fax (3742) 15-10-69